# The millennial monsoon

*Improving returns from a young generation of travelers*

IBM Institute for Business Value

Executive Report

Travel & Transportation

## Turning travel and transportation challenges into opportunities for excellence

To succeed in today's hyper-competitive world, travel and transportation companies need to solve increasing complex problems and seize new and exciting opportunities faster than their competitors. They must continue to drive operational excellence and enable collaboration across enterprise functions and between members of emerging ecosystems. Above all, industry leaders must run the business well amidst constant change. The IBM Travel & Transportation practice understands these challenges and brings its extensive industry experience, business insight and technical prowess to bear on these challenges every day.

# The millenial monsoon

*Millennials are an important demographic to travel providers, and their unique propensity for digital communication has shaped their travel preferences and perceptions in a few important ways. But while our survey of 3,017 travelers found a few key differences between millennial travelers and their older counterparts, our central conclusion is that millennials are, for the most part, a lot like everyone else. Millennial travelers have diverse needs and preferences that overlap significantly with other travel cohorts. To win over the millennial generation, and to succeed with all travelers, providers must understand, attract and cater to select sub-segments with differentiated products and services.*

## Executive Summary

The millennial generation is the first to come of age during the information era. Raised alongside the first search engine, influenced by social media and constantly connected to their smartphones, millennials have grown up with a unique set of experiences. Empowered by information and emboldened by their social impact, they are poised to transform the way consumers throughout the world evaluate, purchase and consume goods and services.

To understand and predict the travel preferences and patterns of millennials, as well as find out how they compare to previous generations, the IBM Institute for Business Value and the Economist Intelligence Unit surveyed 3,017 travelers from 12 countries between May and August of 2014. Analysis of survey responses enable us to derive insights about the millennial traveler, as well as explore steps travel providers can take to capture the loyalty of these new consumers.

Born between 1981 and 2000, the millennial generation was, at first, commonly called Generation Y. However, as the first of these began reaching early adulthood around the turn of the millennium, they are now generally referred to as millennials. To this generation, technology is something of an intrinsic right, which they apply to almost all aspects of their lives. Further, they significantly differ from previous generations in the way they value experiences, especially in their general disregard for wealth as a measure of success.[1] They also exhibit a significant tendency to delay common milestones, such as marriage, home ownership and having children.

**34 percent** of millennials say that apps are the most helpful channel when shopping for a travel service provider (compared to 19% of everyone else)

**49 percent** of millennials would like to use travel apps to manage their travel services in one place (compared to 43% of everyone else)

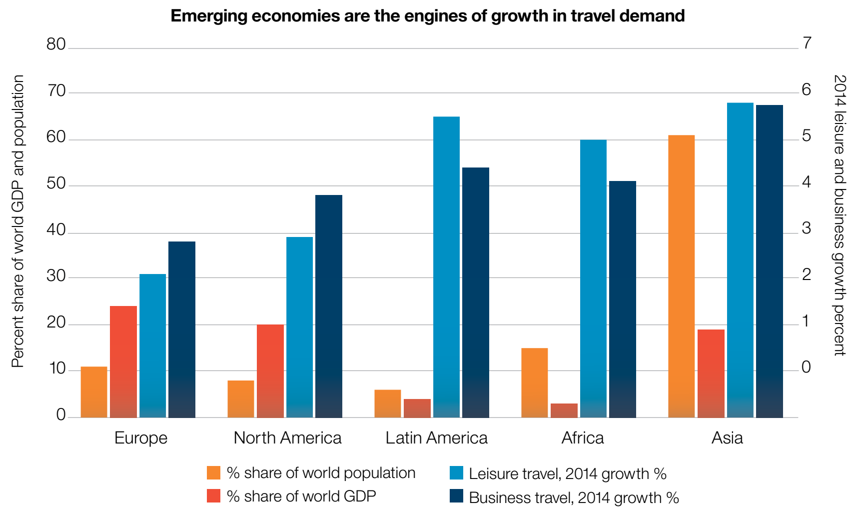
**31 percent** of millennials say that they are willing to stay in a private home on their next trip (compared to 30% of everyone else)

# The demographics of millennials

When it comes to evaluating the significance of millennials, it is important to remember that today more than half of the world's population is under 25, and most of them reside in emerging economies.[2] The Asia-Pacific middle class is expected to quadruple over the next few decades, significantly changing where, and at what price, travelers flow from each continent.[3] Moreover, as more "emerging" millennials look to experience what their parents could not, they represent a substantial financial opportunity for global travel service providers. For providers hoping to capture the most profitable segment of tomorrow, millennials are likely their prime targets.

**Figure 1**

*Although the world economy has a clear mature-market bias, high growth in population and travel demand underline the importance of emerging economies*




Sources: ITB World Travel Trends Report 2013/2014. Rep. Messe Berlin, 2013., At 97m and Growing, China Has Most Outbound Tourists|Society|chinadaily.com.cn. China Daily, 09 Jan. 2014., World Travel and Tourism Data, Knoema, 2012

**Existing perspectives and over-hyped messages**

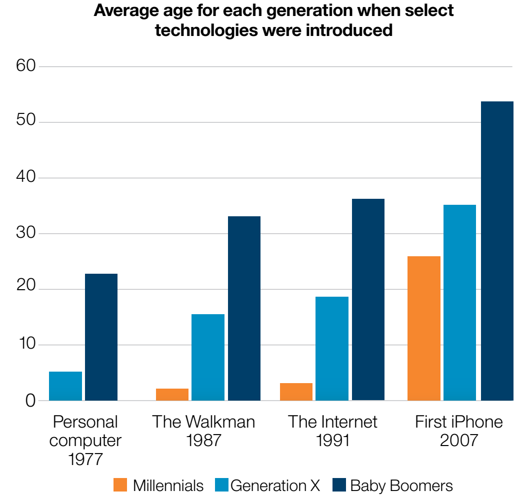
millennials are unique, in part, because they have come of age as many of the defining technologies of the digital revolution have taken shape. Growing up with the rise of Facebook, TripAdvisor and Airbnb, they are understandably more comfortable with social networks, peer reviews and consumer-to-consumer travel services. millennials may have led the pack in use of these technologies, but other generations are quickly becoming more adept with these technologies too.

Previous generations are also adopting digital channels at an unprecedented rate, in part because of the value associated with online searching, booking and mobile support. Already, 75 percent of the world's travelers use tablets and smartphones while traveling, and millennials are only 11 percentage points ahead of Generation X in the amount of time spent with smartphones.[4]

While other researchers have uncovered significant gaps between millennials and everyone else, the key question travel providers should consider is: as older travelers get more comfortable in the digital realm, how long might these differences persist?

**Figure 2**

*Millennials came of age in the era of digitization, which has helped shape their perceptions and preferences as consumers.*



## Millennials set the standard, but older generations are closing the gap

Many of the findings from our study of millennial travelers undermine common assumptions about their supposed “uniqueness.” Instead, we find that millennials closely resemble, and in some cases identically match, travelers from other generations. Across the travel ribbon—travel inspiration and marketing, shopping and booking, the travel experience and traveler engagement—we found few differences between millennials and everyone else. Indeed, the differences that separate the generations are significantly overshadowed by the similarities that unite them.

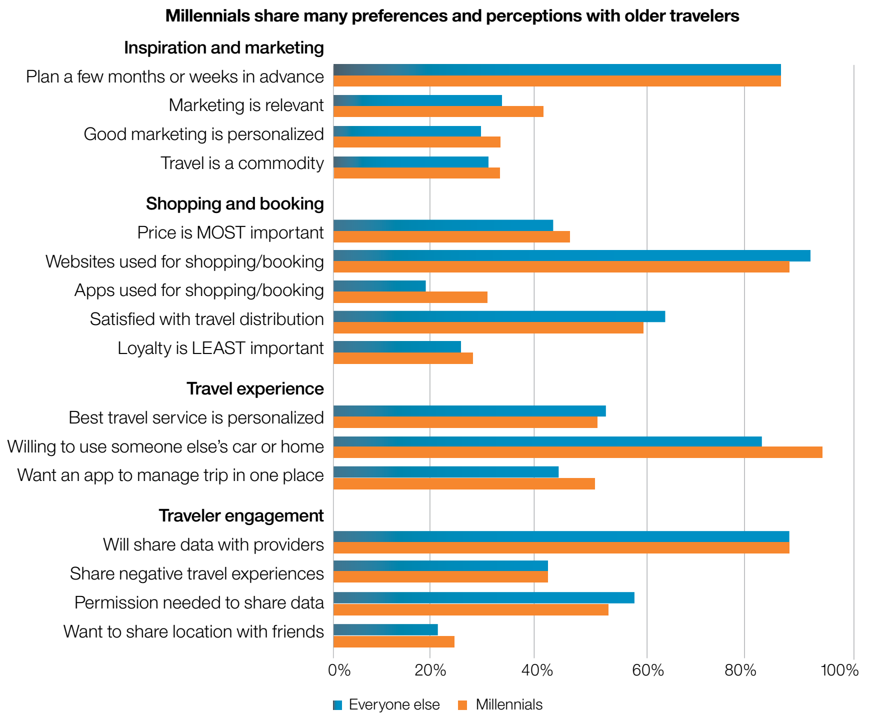
But a few noteworthy differences standout. In the shopping and booking process, although websites continue to be the most dominant channel for all travelers, millennials are more likely to use apps. If smartphones become more ubiquitous, this gap may narrow, as others see mobile as a viable alternative to the web.

The millennial travel experiences are more likely to include consumer-delivered services, such as car sharing and the use of private accommodations. Older travelers are also making use of consumer-to-consumer services, but our data show that younger travelers are fully embracing this trend.

Similarly, although both age groups say they want a mobile app that will help manage their entire trip, millennials exhibit a stronger preference for such a service. We identified this unmet need in previous studies, but travel providers have yet to seize this opportunity.[5]

**Figure 3**

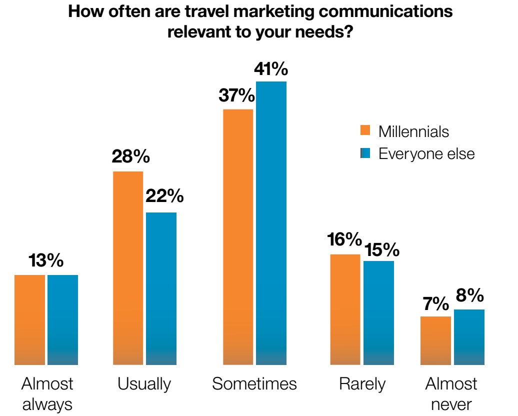
*Millennials are more apt to book travel using an app, use a consumer-provided service and express a preference for an app to manage their entire trip*




Source: Collection of questions from IBM Millennial Travel survey 2014 (n=3017)

*The differences that separate the generations are significantly overshadowed by the similarities that unite them.*

**Figure 4**
*Many millennial travelers, like their older counterparts, see travel marketing as relevant to their needs*




Source: "How often are travel marketing communications relevant to your needs?" (n=3017)

# Travel inspiration and marketing—striking similarities between generations

It seems fashionable in the press to paint millennials as radically unique consumers, especially with respect to what motivates and inspires them. But in the travel domain, stark contrast between millennials and older travelers is not evident.

While 1 percent of millennial travelers are exceedingly spontaneous, reporting that they typically start planning their trips less than a day in advance, the vast majority are no more likely to spontaneously head off to a far-flung land than everyone else. In fact, 85 percent of millennials and exactly 85 percent of older travelers start travel planning travel either a few weeks or a few months in advance.

Perhaps travel marketing is not working well enough to motivate millennials—nope, not according to our survey. Over three-fourths of travelers sometimes, usually or almost always find travel marketing communications to be relevant to their needs, with no significant differences between generations. So travel marketing is passing the relevancy test.

Travelers are also unified in their belief that travel marketing communications that are most effective demonstrate a clear bargain. Older travelers show a slight preference for simple communications, while millennials prefer personalized messages. But, for the most part, there were no differences between the generations with respect to travel marketing.

These findings do not suggest that there are not areas for improvement in the travel inspiration and marketing domain. In fact, almost a third of all millennial travelers view airlines, hotels and car rental providers as basically the same, with older travelers detecting only slightly more differentiation. Perceptions of commoditization, therefore, should concern most travel providers.

# Travel shopping and booking—millennials crave mobile enablement

Perhaps not surprisingly, we found little difference between what millennial travelers and their older counterparts are shopping for. The vast majority of both groups say price is their most important selection criterion. They are also unified in the expression that loyalty program points make the least difference when choosing between providers.

Similarly, no unique patterns emerged with respect to preferences for packaged or individually purchased travel services: 52 percent of millennial travelers and 53 percent of older travelers prefer to buy travel components individually.

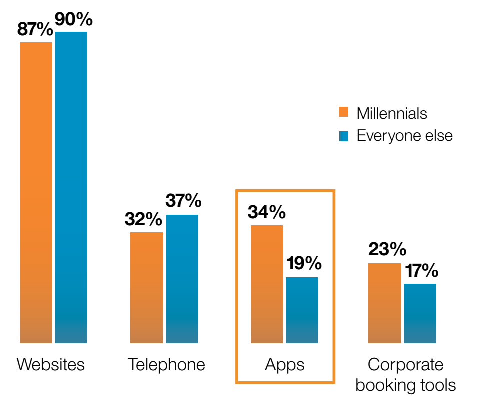
Millennials are also similar to older travelers in that they use all channels, with 87 percent of millennials and 90 percent of older travelers reporting that websites are useful when shopping for and booking travel. It is striking that 34 percent of younger travelers, compared to just 19 percent of older travelers, find apps useful for this task. This is a notable difference between generations that providers should explore and exploit.

When it comes to shopping and booking, millennials have been found to spend a bit more time in the process—perhaps they spend more time reading reviews and harvesting social opinions. Millennials exhibited slightly greater dissatisfaction with how they characterized the time spent on such tasks, but overall, 40 percent of travelers say that time spent in shopping and booking is either "frustrating but necessary" or "neutral." This means travel distribution is a significant improvement opportunity for many providers.

**Figure 5**

*Like all travelers, millennials turn to websites for shopping and booking, but they also demonstrate a marked interest in app-driven travel purchases*

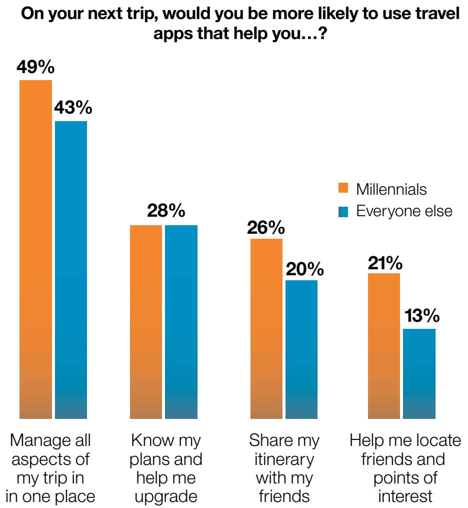
**What channels are most useful when shopping for travel service providers?**




Source: "What channels do you find most useful when shopping for and booking travel services?" (n=3017)

**Figure 6**

*Many travelers, but especially millennials, would like to use apps to manage their travel experience*




Source: "On your next trip, would you be more likely to use travel apps that help you... manage all aspects, know my plans, etc?" (n=3017)

## Travel experience—millennials, like other travelers, share and share alike

When asked what they would most like to use a travel application for, slightly less than 50 percent of millennial travelers say they would like to use an app to manage their entire trip in one place, compared to 43 percent of older travelers. This is an unmet need for a significant share of all travelers and might reasonably be expected to grow as millennials constitute an ever greater share of travel demand in the future.

Many travel providers will take heart that three-quarters of millennials, and a similar portion of older travelers, disagree with the statement that "I have rarely experienced good customer service from a travel provider." Interestingly, there were only slight generational differences in the form these positive experiences take. Millennials are slightly more receptive to services and experiences delivered through a digital devices, and their older counterparts are a bit more likely to believe that good travel services are delivered face-to-face.

Contrary to popular assumptions, consumer-to-consumer travel services, such as Airbnb and Uber, are not just a hit with younger generations—more than 50 percent of millennials say they are willing to use a service like AirB&B, but they are popular with older travelers, too.[6] Millennials are slightly more apt to use these types of services, and are decidedly more willing to stay with an owner in a private home or rent out their own car to someone else.

# Traveler engagement—The digital club is not exclusive to millennials

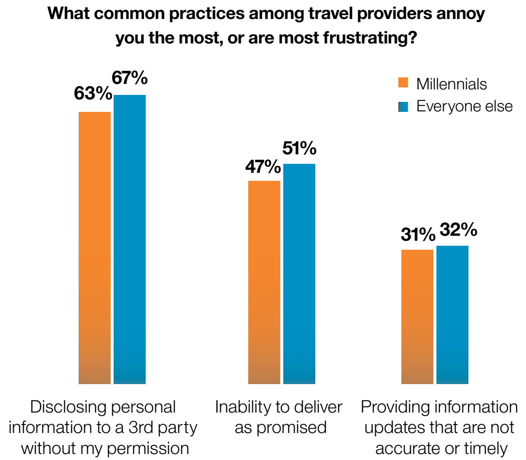
Travel providers that hope to personalize travel service delivery may be pleased to learn that the majority of both older and younger travelers from our survey seem receptive to most forms of sharing. While over 90 percent of millennials, and a similar portion of older travelers, are willing to share negative experiences in some form, at least occasionally, most are also willing to share information about their own preferences and patterns.

What is more, most travelers are also willing to spend time sharing information with providers. Fully 51 percent of millennials and 54 percent of everyone else say they are willing to spend between three and ten minutes sharing personal information with a travel provider.

Travelers for all age groups share concerns about the data they share with travel providers. Sixty-three percent of millennial travelers and 67 percent of older travelers say that the most frustrating or annoying thing a travel provider can do is share their personal information with a third-party without their permission. In fact, for both age groups, this was significantly more off-putting to travelers than an inability to deliver as promised or the habit of travel providers to provide inaccurate or untimely information.

**Figure 7**

*Generations share similar feelings about the travel-provider practices they find most annoying*




Source: "What common practices among travel providers annoy you the most, or are the most frustrating?" (n=3017)

## 1. Target traveler sub-segments

The first step in winning more millennial travelers is to decide the sub-segments that will be most attracted to your value proposition. These are most likely to become your brand advocates in the future. It important to understand which millennials best fit your travel model and service offerings. You can then exploit your advantages by offering pockets of value with unique experiences that competitors cannot easily match. More sophisticated analytics, therefore, are needed to uncover the pockets of opportunity in the travel market.

# The path to success has not changed: differentiate with personalized engagement

Although our study finds only a small number of significant differences between millennials and other generations, a more complex analysis reveals that meaningful sub-segments exist within the populations of both older and younger travelers. Sub-segment differences are important because the factors used in our cluster analysis to derive them—travel purpose, country economy, frequency of travel, education and income—are precisely the types of factors travel providers should apply in their own sub-segmentation activities.

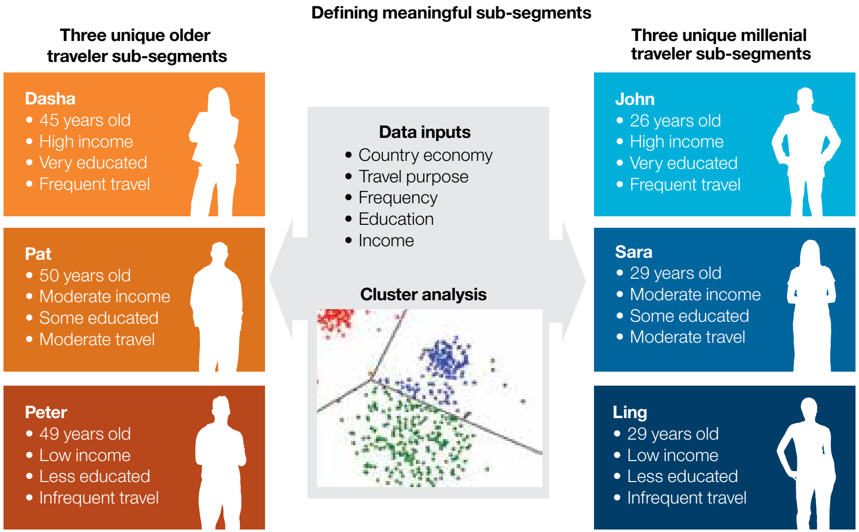
Delta Air Lines showcased just such a sub-segmentation strategy with its Delta Innovation Class campaign.[7] By appealing to millennials who could be future business leaders, and showcasing value of connections with other travelers, Delta is targeting a sub-segment with a unique value proposition. The airline's hope, it seems, is to create an invite-only group of young and elite travelers who share common objectives and a commitment to Delta.

Other such opportunities surely exist, but travel providers must analyze their current offerings and customer bases to determine the sub-segments that could become their most valuable customers. Getting this step right is important, and it will require careful analysis of sub-segment need and preferences, and an honest accounting of both strengths and weaknesses.

Hotelier Starwood, for example, is working to improve its appeal to millennial travelers by allowing them to choose how and when they interact with staff.[8] This works via a keyless check-in. However, to accommodate other sub-segments, Starwood continues to offer counter check-in for those who prefer face-to-face interaction. This adds real value by allowing interaction with staff to be optional. However, when travelers do interact with staff, it will be on a subject that is chosen by the guest, instead of focusing just on the mechanics of getting a room key.

**Figure 8**

*A cluster analysis revealed significant variation within the population of millennial and non-millennial travelers. The six resulting sub-segments are represented by the personas in this figure*




Source: IBM Institute for Business Value analysis

*Travel providers must analyze their current offerings and customer bases to determine the sub-segments that could become their most valuable customers.*

## 2. Develop unique service delivery competencies

Building on newly established sub-segments, providers should develop differentiating capabilities to for each sub-segment to separate themselves from competitors and combat perceptions of commoditization. Converting millennial travelers into loyal customers will require consistent delivery of personalized services. However, it will be critical for providers to avoid alienating other generations in the process. Differentiating competency should serve specific sub-segments—tailored not only to generational preferences and perceptions, but also to individual differences.

Travel distribution offers another avenue for differentiation of service delivery. Our survey respondents who reported some level of business travel—four of our six segments—indicated divergent levels of satisfaction with shopping for and booking business travel. Interestingly, the most satisfied sub-segment is the one that reports spending the least time shopping for and booking trips. Over 70 percent of this sub-segment completing business shopping and booking in less than one hour, and 65 percent of them say they are satisfied with the shopping and booking process. By reducing inefficiencies and improving processes for other sub-segments, travel providers may improve satisfaction.

**Figure 9**

*Our wealthiest, most educated, most frequent non-millennial traveler sub-segment spends the least time shopping for and booking her travel, and is the most satisfied with the overall process*


Source: IBM Institute for Business Value analysis

This challenge can be approached in multiple ways. For example, one global travel agency sought to offer a fully managed trip under one brand umbrella. This included not only the marketing and sale of that trip, but in trip and post trip services. This reduced the number of choices that customers had to make, and also allowed the travel agency to manage all aspects of the trip. While having a full view of the customers is desirable, for most providers, this comprehensive approach will not be feasible.

For most travel providers, delivering a more integrated travel experience will require more data-sharing — not just data on available products and services, but also on customer needs, preferences, status and disposition. This collaborative resource pooling will likely put pressure on existing business models, but eventually provide a new and significantly improved travel experience for the customer.

**Figure 10**

*In our 2014 travel digitization study we explore the possibilities of satisfying complex, heretofore unmet, traveler needs via travel ecosystems*

**Satisfying travel sub-segments may require an ecosystem approach**

**Travel Value Chain**

In the old world, organizations offered limited options to consumers, who were compelled to choose between the standard package or the fragmented do-it-yourself alternative.

**Travel Ecosystem**

In the new world, ecosystems enable organizations to create an offer infinitely tailored, customized experiences to consumers, who can choose from multiple, integrated options.

Source: IBM Institute for Business Value analysis

## 3. Extend partnerships to succeed

As travel becomes more digital, providers will need to consider new business models to capture both millennials and their older counterparts. As with targeted sub-segmentation and powerful delivery differentiators, providers will have to act swiftly to satisfy their new traveler base. However, no single provider can control the entire travel experience. For many providers, the best approach would be to tackle new sub-segments through the development of partnerships and leveraging unique capabilities across the travel system. Multiple opportunities exist within this space, such as data-sharing arrangements to increase insight, exploiting competitor capability and having a full view of the customer's journey. As customers tend to lump all of their trip experiences under one "perception umbrella," when one provider fails, all others have failed as well.

*"We are more focused on understanding millennialism than understanding millennials as a group."*

**Jeff Zidell**
Senior Vice President, Hyatt Gold Passport

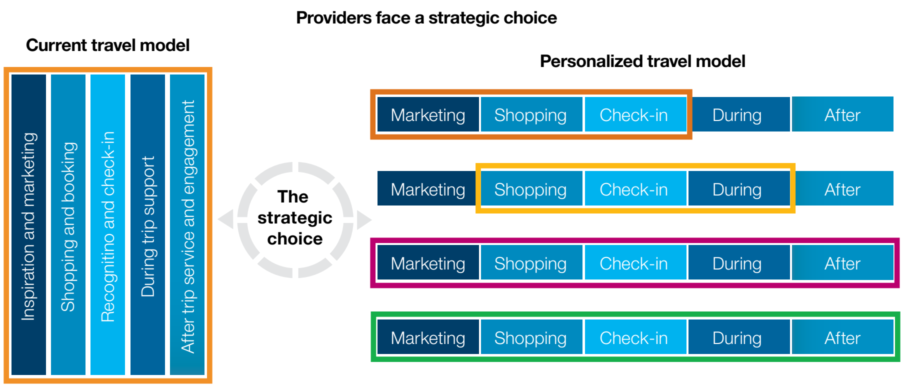
## Paths to success with travelers from all generations

Surprisingly, while millennials are more digitally adept, they are, in most ways, just like the rest of us. The richness and complexity that defines other generations should be identified and catered to by companies that seek to win millennials. Millennials should not be treated as if they all have a unified set of preferences and desires. Travel providers should cease thinking about millennials as a demographic, and instead focus on what sets each sub-segment apart from travelers of all ages. Regardless of age, providers should identify those unique sub-segments whose preferences and patterns align well with their own corporate strengths, brands and uniqueness.

Travel providers who appreciate that the complexity of millennial travelers is similar to the complexity of other populations face a strategic choice. They can, as many will no doubt decide to do, struggle in vain to satisfy diverse sub-segments with a single set of processes, products and services, or they can develop a more personalized travel model that strings together many uniquely defined offerings into a sub-segment specific travel experience. Winners, we believe, will choose the more difficult, but ultimately more rewarding path.

**Figure 11**

*Some providers will incrementally adjust their travel delivery model to account for evolving preferences, but others will elect to develop sub-segment specific versions of key processes in an effort to differentiate services on the basis of unique customer needs*




Typical providers offer
- Some options for the masses
- Almost anything to the top tier

A new approach requires providers to
- Abandon the one (or two) size fits all attitude
- Deliver sub-segment personalization at scale

Source: IBM Institute for Business Value analysis

## *Are you ready for millennials?*

- Are your mobile solutions as digitally advanced as your target travelers?
- Is your social engagement model calibrated to understand and satisfy the needs of specific travel sub-segments?
- Does your company proactively deliver a personal travel experience that is unique to the preferences and needs of each travel sub-segment, or is the burden of personalization left to customers?

## For more information

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. Follow @IBMIBV on Twitter, and for a full catalog of our research or to subscribe to our monthly newsletter, visit: ibm.com/iibv

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Steve Peterson is the Travel & Transportation industry leader in the IBM Institute for Business Value. Steve’s entire 15-year career has been focused on strategy within the travel and transportation sectors where he has helped companies around the globe develop and implement transformational change.

Steve has published several seminal industry studies, including papers focused on airline business model transformation, personalization in the hospitality sector and changes in the travel distribution landscape. He can be reached at steve.peterson@us.ibm.com

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